

NORTH DAKOTA VETERAN'S POSTWAR TRUST FUND

INVESTMENT POLICY STATEMENT

1. FUND CHARACTERISTICS AND CONSTRAINTS

The Veteran's Postwar Trust Fund (Fund) was established for the benefit of and service to veterans as defined in North Dakota Century Code (NDCC) 37-01-40 or their dependents as determined and appropriated by the Legislative Assembly. The funding source for the Fund is investment income.

A minimum balance of \$4,104,848.55 must be maintained at all times. This amount is the principal that must be retained for the total fund. Expenditures from the Fund are met through investment income. Approximately 75% of the total fund has been invested with the State Investment Board. This document pertains only to that 75%.

2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).

The State Treasurer is charged by law under North Dakota Century Code 37-14-14 with the responsibility of investing the assets of the Fund. The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

3. INVESTMENT OBJECTIVES

The investment objectives of the Fund reflect the long-term nature of the Fund, as well as recognize the shorter-term liquidity needs. Operating and statutory consideration shape the policies and priorities outlined below:

Objective #1: Investment income is needed to provide stability of the Fund. This will be achieved through a diversified portfolio of high quality equity and fixed income assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

4. STANDARDS OF INVESTMENT PERFORMANCE

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The portfolio policy index will consist of S&P 500 domestic stock index (large cap domestic equity); Russell 2000 stock index (small cap domestic equity); EAFE 50% Hedged Index (International Equity) and Lehman US TIPS Index (TIPS). Actual calculations of the policy index will vary as described in the asset allocation below.
- b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.

5. POLICY AND GUIDELINES

The asset allocation of the Trust Fund is established by the State Treasurer, with input from the Veterans Administrative Committee. Asset allocation is based upon the appraisal of current liquidity and income needs and estimates of the investment returns likely to be achieved by the various asset classes over the next 5 years.

In recognition of the Fund's objectives, needs, and market expectations, the following allocation is deemed appropriate for the Fund:

A minimum balance of \$2,000,000 will be maintained in Treasury Inflation-Protected Securities (TIPS) with the balance of the Fund being allocated as follows:

Large Cap Domestic Equities	47%
Small Cap Domestic Equities	23%
International Equities	30%

Because of the dollar balance requirement in the TIPS allocation, rebalancing of the Fund to this target will be done every six months (approximately June and December) based on cash flow needs at that time.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

6. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.



KATHI GILMORE, STATE TREASURER

05/26/04
DATE



STEVE COCHRANE, CFA
EXECUTIVE DIRECTOR/CIO
NDRIO

6/18/04
DATE